Comment: Success Stories

South Korea and Taiwan join Hong Kong and Singapore in being the success stories of East Asia. Only Japan has experienced, from 1955 to 1976, a period of economic growth comparable to the high rates experienced by South Korea and Taiwan over the past three decades. Moreover, no other economy has had so high a rate of real economic growth over so long a period.

Much of the success in South Korea and Taiwan may be attributed to appropriate policies undertaken by their governments. There is, however, a question of the extent to which government intervened in the economies. The common view is that reliance on markets and the prescriptions of neoclassical economics accelerated South Korea's growth. But for a contrary study, arguing that state intervention in South Korea was more extensive than is commonly recognized, see Robert Wade, *Governance of the Market* (1991). Wade argues that the state played an active role, with government strategies centrally determined and effectively implemented. For Wade, the political explanation for a successful interventionist policy lies in the authoritarian, corporatist state since 1949 in Taiwan, and from 1961 in South Korea. With a single-party-dominated executive, central state policy makers have had a high degree of autonomy. But there has been at the same time a corporatist alliance among the government leaders, an efficient bureaucracy, and local business interests. Government policies have therefore conformed in large part to market opportunities and have altered market signals to provide incentives to business.

See also Larry Westphal, "Industrial Policy in an Export-Propelled Economy: Lessons from South Korea's Experience," *World Development* (Summer 1990). For the government's role in providing information and technology, see H. Pack and L. E. Westphal, "Industrial Strategy and Technological Change: Theory versus Reality," *Journal of Development Economics* (1986), and G. White, ed., *Developmental States in East Asia* (1988).

The most important question arising from the success stories is the extent to which their success in policy making is transferable to other developing countries. For a critical view, see William Cline, "Can the East Asian Model of Development Be Generalized?" *World Development* (February 1982). This is related to the issue whether other developing countries can be major exporters the way the Asian NICs have been. This issue of the new export pessimism is discussed in Chapter IX.

Excellent studies are Walter Galenson, ed., *Economic Growth and Structural Changes in Taiwan* (1979); John C. H. Fei, Gustav Ranis, and Shirley W. Y. Kuo, *Growth with Equity: The Taiwan Case* (1979); E. S. Mason et al., *The Economic and Social Modernization of the Republic of Korea* (1980); A. Amsden, *Asia's Next Giant* (1989); Byung-Nak Song, *The Rise of the Korean Economy* (1990); Helen Hughes, ed., *Explaining the Success of East Asian Industrialization* (1988); Lawrence J. Lau, ed., *Models of Development*, rev. ed. (1990); Ezra Vogel, *The Four Little Dragons* (1991); Paul W. Kuznets, "An East Asian Model of Economic Development," *Economic Development and Cultural Change* (April 1988); Gustav Ranis, ed., *Taiwan: From Developing to Mature Economy* (1992); World Bank, *East Asian Miracle* (1993); and Cho Soon, *Dynamics of Korean Development* (1994).

I.C.2. Latin America*

A number of generalizations that describe and explain the differences in growth rates between Asia and Latin America have become quite common in academic and popular discussion. The first is perhaps the most general of all.

*From Seiji Naya et al., eds., *Lessons in Development: A Comparative Study of Asia and Latin America* (San Francisco: ICS Press, 1989), pp. 5–11, 252–53. Reprinted by permission.

GENERALIZATION 1: *In the late 1970s and through the 1980s, Asia has experienced rapid growth, while Latin America has stagnated.*

As early as the 1950s, it had seemed to many observers that some of the larger Latin American countries, in particular Brazil, Mexico, Argentina, and Venezuela, were poised for rapid long-term growth. Indeed, the term "NICs" was initially coined in reference to these Latin

American countries more than to the Asian NICs, and most Latin American countries started with higher per capita incomes than are now found in Asia outside the NICs. Therefore, the basic question that arises is why the growth of Latin American countries slowed.

GENERALIZATION 2: *The Asian countries identified in the 1960s as potential NICs succeeded, but those so identified in Latin America did not.*

Among the numerous explanations of this differential growth is that the Asian NICs have been united by a quasi-Confucian ethic. [Some would] argue that emphasis on a few Confucian values, such as loyalty, respect for elders, and a strong work ethic, was a key factor in the growth of the Asian NICs. This suggestion is similar to the religious and sociological explanations for the growth of the West in the last century. Certainly an observer is impressed with the continuation of traditional values in social and family life in many parts of Asia, continuation that may have contributed to the greater orderliness that is found there. This may be an important factor that has a bearing, for instance, on differences in industrial organization in Asia and the West. For example, it has been pointed out that the labor force of the Asian NICs exhibits more self-discipline than that of any other in the world economy. Yet the question of cultural influence is a complicated and technical one that needs to be (and is being) seriously addressed by cultural and political historians. It is not something on which economists can speak with comparative advantage.

Instead, the kind of explanation that the economist finds more appealing tends to be the following:

GENERALIZATION 3: *Asia has had more market-oriented and less-regulated economic policies than Latin America. There have been more incentives encouraging entrepreneurship and private initiative in Asia; there also has been greater confidence in and between the government and the private sector.*

This again is a broadly true statement that requires some qualification. The Asian NICs are well known for their policies emphasizing market- and private-sector development. At the same time, the policies of the Asian NICs (except Hong Kong's) are not laissez-faire policies, and in fact their governments do a great deal to determine the shape and direction of their economies' development. Chen proposes that this be called "neoclassical interventionism," since the policies adopted are based on neoclassical principles, with greater reliance on incentives and the market system. That is, the government intervenes, but only in a manner that—insofar as these policies are intended either to correct market distortions or achieve certain social goals—will facilitate the market system. The ASEAN-4 countries also have emphasized market-oriented policies, though less so than the Asian NICs.

On the other hand, the governments of the South Asian countries have traditionally intervened in every facet of the production process. Here the government, through its public enterprises, is a large producer of a wide range of goods. Several of these South Asian countries, like many Latin American ones, are in the process of easing regulations, but most are finding it a difficult task. How far, how fast, and in what order to liberalize are questions that must be further addressed. The task is made more difficult because in Latin America and South Asia, unlike in the NICs and the ASEAN-4 countries, there is a wariness and a mutual lack of confidence between the government and the private sector.

GENERALIZATION 4: *Asia has had more outward-looking trade and exchange-rate policies than Latin America.*

Despite extensive government intervention, trade regimes in the NICs have generally been left to market forces. In fact, Hong Kong and Singapore are virtually free-trade economies, while the level of protection in Taiwan is also very low. Although tariff levels are somewhat higher in Korea, they are still generally lower than those of other developing countries. Further, protected industries in Korea were required to become competitive and begin exporting within a short period of time. This meant that efficiency and competition have been promoted rather than suppressed.

One reason the NICs moved against the conventional wisdom and toward outward-looking policies was that their small markets and lack of natural resources made import–substitution policies untenable. Unlike the resource-rich larger countries in both Latin America and Asia, the NICs had few other options.

In contrast, most developing countries, including the Southeast Asian, South Asian, and Latin American countries, followed the economic wisdom of that time and allowed their industries to hide behind high tariff walls. This provided a quick spurt of growth that did not last once the domestic market was satiated. The large profits that were gained by inefficient domestic producers in a protected market invariably led to the creation of special-interest groups supporting the continuation of such policies. Because of the foreign exchange received from producing and exporting primary commodities, the ASEAN-4 and Latin American countries were able to sustain expensive import–substitution policies. However, such policies supported overvalued exchange rates, which discriminated against manufactured exports.

Further, commodity exporters were affected by the problem of booming sectors. With high commodity prices, other exporting industries were hurt by the appreciating domestic currencies. For example, the textile industry in Colombia went into crisis in the early 1980s despite efforts by the government to prevent revaluation of the domestic currency. . . .

More generally, there may have been a basic difference between parts of Asia and Latin America in their perceptions of export opportunities. For example, in Latin America the predominance of commodity exports and the low income elasticity of demand for commodities has generated more pessimism than has been the case in East or Southeast Asia. In contrast, despite the slower growth of world trade and the fact that the NICs and ASEAN-4 economies have faced at least as much, and possibly more, Western protectionism in the 1970s and 1980s than have Latin American economies, there seems to have been less "export pessimism" in Asia than in Latin America.

GENERALIZATION 5: *Asia has been more concerned with macroeconomic stability than Latin America, especially with respect to inflation and debt management.*

A few Asian countries have experienced repressed inflation and shortage and have not followed prudent borrowing or debt-management policies. Most of them, however, have adopted pragmatic policies and approaches with respect to debt management and inflationary expectations, in contrast to the less-restrained expenditure policies of Latin America. To this may be added the relatively higher rates of real saving in East and Southeast Asia than in Latin America. Furthermore, in contrast to many Latin American countries, saving rates have increased since 1970 in all East and Southeast Asian countries except the Philippines. Because of moderate levels of inflation, realistic interest rates, and the strong economic performance of the region, capital flight has not been a problem in Asia. . . .

The nominal growth of the Latin American economies in the 1960s and 1970s was financed by extensive borrowing, with the borrowed funds too often used not for productive investment but to pay for public sector consumption. The financial sectors of the Latin American countries were flooded by a large supply of capital available for borrowing in the 1970s, and the low or even negative real interest rates signaled the Latin American countries to borrow more rather than to produce for export.

Moreover, while economists in Asia would agree that high rates of real inflation are inimical to real economic growth due to the uncertainties and unanticipated transfers that inflation causes, the same may not be true of Latin America. Until only very recently, there has been relatively little consensus among Latin American economists and government officials with respect to economic policies, and there has not been the same sense of direction in Latin America with respect to macroeconomic policy that is found in the NICs. However, because of the serious distortions caused by inflation and hyperinflation (despite indexation of wages and prices), there is emerging a growing consensus among Latin American economists on the importance of lower inflation rates to support economic growth.

GENERALIZATION 6: *Efforts at regional cooperation succeed when they are not too ambitious; they should work to create trust and information capital.*

Latin America has the longest experience of regional cooperation beginning with the Central American Common Market (CACM) and the Latin American Free Trade Association (LAFTA) in the late 1950s and early 1960s. As the names suggest, these were ambitious attempts to form large markets with no tariff barriers. Asia has had a shorter history of regional cooperation. The Association of Southeast Asian Nations (ASEAN) was formed in 1967 without such ambitious goals. More recently, in 1985, the South Asian Association of Regional Cooperation (SAARC) was formed. These attempts at cooperation have taken different forms and have met with various degrees of success.

Efforts at regional cooperation can lead to more and better contacts, information, and channels of communication, all of which may reduce transaction costs and increase the stock of what may be called the "information capital" available to traders and potential traders. Such an invisible stock of trust or information capital can be very valuable. Bureaucracies may be needed to maintain this stock. While there is the danger that these new bureaucracies, once created, will develop lives of their own that are independent of their original purposes, the net gain may nevertheless be positive.

Attempts at integration often face the problem of intraregional trade expansion being limited by lack of complementarity in the export structures of the regional partners. Exports are often concentrated in primary products that are destined for Western markets. The question of how the structure of production can be expanded to allow for greater trade is central to most regional integration schemes. The Latin American experience clearly shows the problems of pursuing industrial programs of agreed-upon specialization, where regional production of certain goods is designated to selected countries. ASEAN's attempt at a regional industrial scheme also failed. Two major lessons that can be drawn from these experiences are the importance of a slow approach to integration as well as the need to maintain openness with the rest of the world.

GENERALIZATION 7: *Asia has had more political stability than Latin America.*

In the Asian countries, there have been few changes in government leadership in the past ten years and in some cases twenty years. for example, Lee Kuan Yew was the leader of Singapore's government for almost thirty years, and Suharto governed Indonesia for more than twenty years.

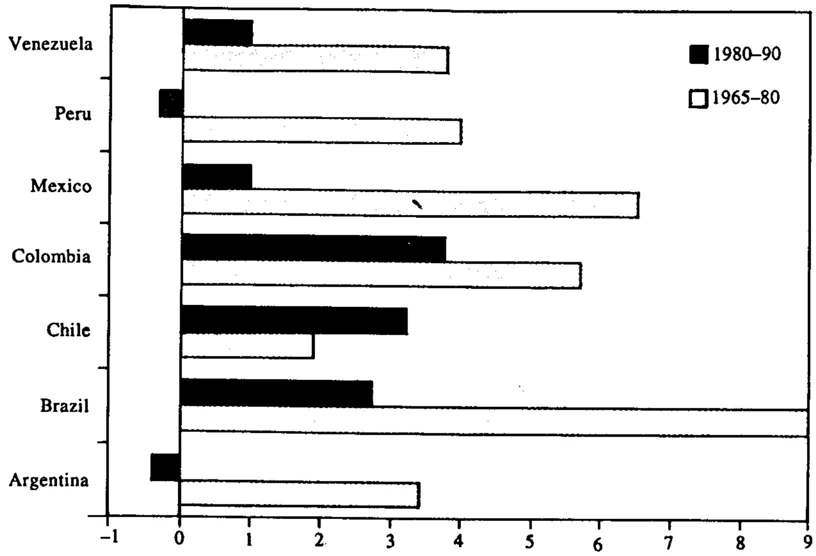
In addition to the generally long tenure of political regimes in Asia, the economic policies followed have generally reflected a pragmatism on the part of the government that, typically, has extended into the next regime despite differences in political ideology. For example, even when political coups occurred in Thailand in the 1970s and Korea in the 1980s, economic policies remained basically unchanged.

GENERALIZATION 8: *Latin America has had more of a trend toward democratization than Asia.*

Of course there are major exceptions to this. The large and vibrant Indian democracy thrives as it has done for half a century, democratic institutions continue in Sri Lanka even in the midst of civil war, and the Philippines experienced an important democratic revolution only a few years ago. At the same time, dictatorships continue in some Latin American countries. Yet for a variety of reasons, the last decade has witnessed a broad trend toward political democratization in Latin America. While Latin American economists (of all persuasions) seem frank enough to be highly critical of many aspects of the management of economic policies in their part of the world, they take some pride in these recent political trends. Asian economists on the other hand are sometimes a little complacent and self-congratulatory with respect to the economic successes in their region, and they may need to move increasingly toward improvements in the nature of their political institutions.

Each of the eight generalizations given above contains an important element of truth (although the reader is reminded of the difficulties that are involved in making large-scale comparisons and contrasts).

EXHIBIT I.12. GDP Average Annual Growth Rate (percent)



Comment: Latin American Case Studies

Although the 1980s represented a lost decade for Latin American countries, a number of countries are undertaking policy reforms in the 1990s that portend considerable improvement in their development performance. Notable are reforms in Bolivia, Costa Rica, Chile, Mexico, and Venezuela.

For some country studies, see R. Dornbusch and S. Edwards, eds., *Macroeconomics of Populism in Latin America* (1991); Stephan Haggard, *Pathways from the Periphery* (1991); John Williamson, *Latin American Adjustment: How Much Has Happened?* (1990); V. Corbo and J. de Melo, "Lessons from the Southern Cone Policy Reforms," *World Bank Research Observer* (1987); Jeffrey D. Sachs, *Social Conflicts and Populist Policies in Latin America* (1990); Eliana Cardoso and Ann Helwege, *Latin America's Economy* (1991); Victor J. Elias, *Sources of Growth: A Study of Seven Latin American Economies* (1992); Simon Teitel, ed., *Towards a New Development Strategy for Latin America* (1992); and Inter-American Development Bank's series of reports *Economic and Social Progress in Latin America* (annual), since 1961.

I.C.3. Sub-Saharan Africa*

The Record

Official estimates show that, on average, incomes in SSA are today no higher than 20 years ago and are well down over the last decade. There have also been comparatively large, and persistent balance of payments and inflation problems, very low levels of saving and investment, and a declining productivity of investment. Table 1 summarizes some of the evidence and compares the African record with that of other low-income countries.

The economic comparisons are clearly to the disadvantage of SSA. The comparatively poor record on export volumes, and the failure to diversify out of primary product exports, is arguably the most serious of these. The social indicators are better, showing improving mortality rates and school enrollments but even here, other low-income countries mostly made more progress, and the dietary comparison is particularly adverse. Progress with the enlargement of secondary school enrollments was a notable exception to these unfavorable comparisons. There are, however, concerns that in some SSA countries the quality of schooling has deteriorated and there is evidence of declining enrollment rates in recent years. . . .

There are, of course, large differences in the

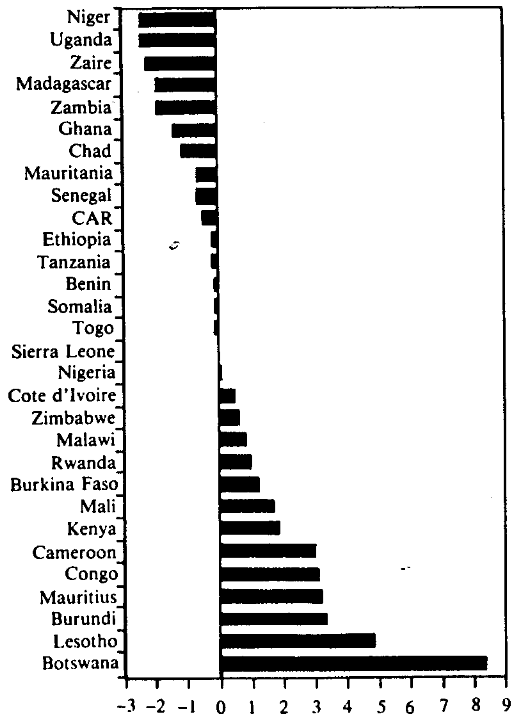
*From Overseas Development Institute, *Explaining Africa's Development Experiences*, Briefing Paper, June 1992. Reprinted by permission.

TABLE 1. Comparative Indicators of Economic Performance

		SSA	Low-Income SSA	All-Low Income Countries
Economic Growth, 1980–89 (percent p.a.)				
Income (GNP) per capita		−1.2	−1.1	+0.7
Private consumption per capita		−2.2	−0.5	−0.5
Export volumes		−0.7	−1.8	+0.8
Prices (inflation rate)		+19.6	+30.2	+14.8
Structural Indicators				
Gross domestic savings as percent	1965	14	—	18
GDP	1989	13	—	26
Gross domestic investment as	1965	14	—	19
percent GDP	1989	15	—	28
Primary products as	1965	92	—	76
percent total exports	1989	89	—	48
Energy consumption	1965	72	—	125
per capita*	1989	73	—	330
Social Indicators (percent change 1965–89)				
Crude death rate		−32	−30	−39
Infant mortality rate		−32	−30	−37
Calorie supply per capita		−1	0	+13
Primary school enrollment		+55	+58	+60
Secondary school enrollment		+314	+292	+207

Note: * = kgs of oil equivalent.
Source: World Bank, various.

FIGURE 1. Change in per capita GNP, 1965–90 (percent per annum).



resource endowments, structures, performances and problems of African economies. There are major differences between the situations of oil-importing and exporting countries. The Franc Zone arrangements place most Francophone African countries in a special category. Countries in the Sahelian zone and the Horn of Africa have a special vulnerability to uncertain rainfall.

Figure 1 illustrates the wide spread of experiences by reference to the growth of per capita income in 1965–1990. Over that period substantial increases are shown for a number of countries, while in a slightly larger number, average incomes are today lower than they were a quarter of a century ago. The record is not uniformly bad. Yet strong performers like Botswana and Mauritius are distinguished more by their special circumstances than by their potential as role-models. The more recent record has been worse and most of the countries listed in Figure 1 were unable to prevent declines in per capita incomes during the 1980s. Some of the worst performers, such as Sudan and Mozambique, are not included in the Figure; nor is it weighted by population. (Nigeria's stagnation and Zaire's decline far outweigh the growth of the smaller countries.) Yet there are many common characteristics and substantial similarities in experience; this paper is concerned with what the economies of SSA have in common rather than with the differences. . . .

Economic Policies

The poor quality of past economic policies is often blamed for SSA's unhappy experience, particularly policy biases which contributed to the poor export and balance-of-payments record. There was a tendency until the early 1980s to maintain fixed and over-valued exchange rates, with a two-fifths average real appreciation during the 1970s. Over-valuation reduced the profitability of exporting and this disincentive was compounded by other policy biases. A substantial proportion of export receipts was often withheld from producers as a result of export taxes (overt or covert) and the inflated costs of state monopoly marketing agencies. Exceptionally high levels of industrial protection also acted as a tax on exporters, by raising the cost of local inputs and biasing relative prices in favour of import substitution. Inadequate supporting services and a crumbling infrastructure often made things worse.

Implicit in the above was another common feature of the 1960s and 1970s: relative neglect of agriculture. To the pro-urban bias of import substitution, particularly in manufacturing, and the taxation of cash crops can be added, in some cases, price controls on foodstuffs, depressing the prices paid to farmers; underresourced inefficient research and extension services; and underinvestment in rural infrastructure.

"Financial repression" was another common feature: interest rates controlled at well below market levels; lending decisions based on political and other non-financial criteria; a variety of devices for capturing a disproportionate share of domestic credit to finance the deficits of the public sector. Such "repression" is blamed for holding back the development of financial systems, frustrating the credit requirements of private businesses, and contributing to low-productivity investment.

The large need of the public sector for bank credit reflected two further weaknesses: deteriorating fiscal balances and unprofitable public enterprises. The evidence indicates that governments were increasingly unable to meet even their recurrent expenditures from tax revenues, contributing to the deteriorating savings position, and to inflationary and balance-of-payments pressures. The number of public enterprises was greatly expanded and, while some of them performed well, they were the exceptions. The inefficiency of some—in the delivery of agricultural services, export marketing, banking, manufacturing, and retailing—further contributed to the poor economic record under examination.

Another common weakness was a preference in the 1960s and 1970s for the use of controls and discretionary powers rather than policy interventions which operate through market incentives. Controls over imports and prices, a multitude of licensing requirements, and other restrictions on economic life often had the effect of tying-up high-level manpower, created large opportunities for corruption, and spawned parallel (black) markets.

The economic role of the state was in these ways often expanded well beyond its capacity to perform efficiently. It seems likely that this over-expansion contributed to the serious decline in the productivity of investment which also occurred. It may also have undermined the state as an instrument for economic change, by widening the gap between the expectations created and the ability of governments to satisfy these expectations, alienating the people. Some of the chosen forms of intervention themselves hastened the decline of the state, by creating parallel markets, shrinking the tax base, and eroding those aspects of economic life within the control of the state.

Some governments failed notoriously to provide basic security for their peoples. Wars—civil and international—, political instability, and breakdowns of the rule of law have brought suffering to a multitude of Africans—displacing many, forcing others to retreat into the subsistence economy or to operate in the twilight zone of the parallel economy, contributing to the creation of burdensome armies.

The Effects of Personal Rule

Some of the policy weaknesses identified above were also in evidence in various Asian and Latin American countries. One of the features which has placed SSA into a special category, however, was the slowness of its governments to respond to the deteriorating economic results produced by these weaknesses. In many cases deficient policies were sustained for many years so the question arises, why was the policy response so slow? Why were policies harmful to the economy allowed to remain for so long even though governments' popularity, even legitimacy, was undermined by the resulting economic decline? Why were so many of the subsequent policy changes initiated from outside and why has progress with these reforms been slow? In the search for answers to these questions, political, historical, and cultural forces appear to be at least as important as the economic factors described above.

For many political scientists "personal rule" models of African political systems are particularly persuasive. They see the position of modern African rulers and their governments as maintained by patron-client relationships, largely based on familial and ethnic loyalties. Followers are rewarded with preferential access to loans, import licenses, contracts, and jobs. Institutional rules and constitutional checks are swept aside in the struggle to maintain power. The distinction between the public and private domains becomes blurred.

Governments which conform to this model are unlikely to care much about broad-based, long-term economic development. Indeed they are seen as destructive of it, with the pursuit of personal aggrandizement and short-term political advantage leading to economic irrationality. As rule becomes more personalized and power more concentrated, so policies are apt to become less predictable, more arbitrary. Manipulating the distribution of wealth becomes more important than its creation.

Despite its explanatory value, there are particularly large dangers of over-generalizing here and of appearing to denigrate all African governments. Nonetheless, the personal rule model appears able to predict and explain a number of the policy weaknesses described earlier:

- The proliferation of generally over-manned public enterprises and, more generally, the over-expansion of the state relative to the private sector to maximize opportunities for patronage.
- The preference for direct controls and discretionary actions over interventions that work impersonally through the market, for similar motives.
- Inward-looking import-substitution policies, to provide further opportunities for rewarding important urban groups; and the neglect of (politically unimportant) peasant farmers.
- Financial repression and politicized credit allocation mechanisms, in order to have cheap credit to offer to supporters.
- The persistence of anti-development policies long after their ill-effects have become apparent, because their primary function was to provide a system of rewards and maintain the ruler in power, rather than to promote development per se.

History and Social Structure

It is evident that personal rule and clientelist-based politics occur in many parts of the world but they do appear to have been particularly pervasive in Africa. If this is so, the question becomes why the region has offered such fertile soil for the growth of this style of politics. A full exploration of Africa's development experience thus requires reference to social structures, values, and historical experiences unique to SSA. . . .

Initial Conditions and Structural Weaknesses

Whatever the validity of these wider political and cultural factors, they do not alone explain Africa's development experience. Further explanations are provided by reference to other conditions at the time of independence, and to chronic weaknesses in the structures of its economies, in respect of which the average African economy was at a serious disadvantage relative to other developing countries at the beginning of the 1960s.

- Populations were largely illiterate and there were acute shortages of educated and trained personnel. Thus, in 1960 the proportion of people enrolled in tertiary education relative to the population aged 20–24 was less than half of one percent in 16 of the 18 SSA countries for which estimates are available, compared to 2 percent for all low-income countries taken together and 4 percent for middle-income countries. This has had serious and long-lived consequences for attempts at modernization, and for SSA's capacity to absorb and adapt modern technologies. Modern approaches to the determinants of economic growth place real importance upon such human and technological capacities.
- As another aspect of under-developed human resources, the relative absence of an indigenous entrepreneurial class equipped to employ modern know-how to the development of substantial productive firms.
- The heavy dependence on primary product exports induced by the colonial approach to development; the consequentially under-developed condition, and distorted nature, of the infrastructure of transport and communications, oriented towards trade with Europe rather than internal development.
- The tiny size of the domestic market for industrial goods (which today for a typical SSA country is about 1/300 that of an average-size industrial country), operating as a major constraint upon industrialization (a constraint greatly aggravated by import–substitution strategies based on the home market).
- Market mechanisms operated poorly, due to the poverty of the economies, their small size, weak communications and infrastructure, low literacy, and scarcities of modern skills. These conditions created extensive dualism and much monopoly outside of traditional agriculture and marketing.

These initial conditions can, in turn, be seen as resulting in inflexible economic structures and a low economy-wide capability of adapting to changing needs. Combined with a predominantly primary production base, these conditions interacted with personal rule to reduce economic responsiveness. This helps explain the static composition of exports, and could be why the response of African economies to structural adjustment programmes has been sluggish by comparison with other developing economies.

In respect of most of the initial conditions just surveyed, the SSA situation was worse (often much worse) than was typical of countries in Asia and Latin America at a comparable stage, helping to answer the question, why Africa? With hindsight, absolutely and comparatively poor development performance could have been predicted, although that was not how it was seen at the time. It is therefore inappropriate to describe the SSA experience as one of "failure." Sustained rapid development would have been extraordinary.

EXHIBIT I.13. Key Macroeconomic Ratios, 1960–90: Sub-Saharan Africa (annual average as percentage of GDP)

	1960–69	1970–74	1975–79	1980–84	1990
Gross Domestic Investment					
Total Sub-Saharan Africa	15.6	19.5	24.2	20.3	16.0
Gross Domestic Savings					
Total Sub-Saharan Africa	14.4	19.8	21.0	15.9	16.0
Private Consumption					
Total Sub-Saharan Africa	73.2	67.1	65.0	69.9	68.0
Public Consumption					
Total Sub-Saharan Africa	12.4	13.1	14.0	14.3	15.0
Exports of Goods and Nonfactor Services					
Total Sub-Saharan Africa	25.6	24.8	25.7	23.2	29.0
Imports of Goods and Nonfactor Services					
Total Sub-Saharan Africa	26.7	24.4	28.9	27.9	30.0

Note: Numbers are weighted averages.
Source: World Bank data.

EXHIBIT I.14. Sub-Saharan Africa, Basic Indicators

			GNP Per Capita			
	Population (millions) Mid-1990	Area (thousand of square kilometers)	Dollars 1990	Average Annual Growth Rate (percent) 1965–90	Average Index of Food Production per Capita 1978–81 = 100 1988–90	Life Expectancy at Birth (years) 1990
Mozambique	15.7	802	80	—	81	47
Tanzania	24.5	945	110	−0.2	88	48
Ethiopia	51.2	1,222	120	−0.2	84	48
Somalia	7.8	638	120	−0.1	94	48
Chad	5.7	1,284	190	−1.1	85	47
Malawi	8.5	118	200	0.9	83	46
Burundi	5.4	28	210	3.4	92	47
Zaïre	37.3	2,345	220	−2.2	97	52
Uganda	16.3	236	220	−2.4	95	47
Madagascar	11.7	587	230	−1.9	88	51
Sierra Leone	4.1	72	240	0.0	89	42
Mali	8.5	1,240	270	1.7	97	48

EXHIBIT I.14. *(continued)*

	Population (millions) Mid-1990	Area (thousand of square kilometers)	GNP Per Capita Dollars 1990	GNP Per Capita Average Annual Growth Rate (percent) 1965–90	Average Index of Food Production per Capita 1978–81 = 100 1988–90	Life Expectancy at Birth (years) 1990
Nigeria	115.5	924	290	0.1	106	52
Niger	7.7	1,267	310	−2.4	71	45
Rwanda	7.1	26	310	1.0	77	48
Burkina Faso	9.0	274	330	1.3	114	48
Benin	4.7	113	360	−0.1	112	50
Kenya	24.2	580	370	1.9	106	59
Ghana	14.9	239	390	−1.4	97	55
Central African Rep.	3.0	623	390	−0.5	91	49
Togo	3.6	57	410	−0.1	88	54
Zambia	8.1	753	420	−1.9	103	50
Guinea	5.7	246	440	—	87	43
Mauritania	2.0	1,026	500	−0.6	85	47
Lesotho	1.8	30	530	4.9	86	56
Liberia	2.6	111	—	—	84	54
Suidan	25.1	2,506	—	—	71	50
Zimbabwe	9.8	391	640	0.7	94	61
Senegal	7.4	197	710	−0.6	102	47
Côte d'Ivoire	11.9	322	750	0.5	101	55
Cameroon	11.7	475	960	3.0	89	57
Congo	2.3	342	1,010	3.1	94	53
Botswana	1.3	582	2,040	8.4	75	67
Mauritius	1.1	2	2,250	3.2	100	70
Angola	10.0	1,247	—	—	81	46
Gabon	1.1	268	3,330	0.9	84	53
Sub-Saharan Africa	495.2 *t*	23,066 *t*	340 *w*	0.2 *w*	94 *w*	51 *w*

Note: t = total; *w* = weighted average.
Source: World Bank, *World Development Report 1992* (1992), pp. 218–19.

Comment: Sub-Saharan Africa's Inferior Performance

Several studies examine Africa's generally poor performance: Tony Killick, "Development Planning in Africa: Experiences, Weaknesses, and Prescriptions," *Development Policy Review*, 1 (May 1983), and "Explaining Africa's Post-Independence Development Experiences," ODI Working Paper 60 (January 1992); World Bank, *Sub-Saharan Africa: From Crisis to Sustainable Growth* (1989), and *The Long-Term Perspective Study of Sub-Saharan Africa* (1990); and Douglas Rimmer, ed., *Africa Thirty Years On* (1991).

Killick summarizes his argument in the following propositions:

1. Notwithstanding poor data and considerable inter-country differences, SSA's post-Independence record on economic growth, modernisation, macroeconomic management and, to a lesser extent, social welfare has been poor, when judged against the aspirations of its peoples and the achievements of other developing regions.
2. Explanations have been sought from different directions. As regards *economic explanations*, only modest weight has been given to two commonly asserted sources of difficulty: a hostile world environment and rapid population growth. Even the overhang of external debt, which is strongly linked with the stagnation of the 1980s, is seen primarily as reflecting domestic weaknesses. Poor export performance, and the factors contributing to that, have been given pride of place, including past exchange rate over-valuation and various other policy interventions which have biased incentives against exports. The declining productivity, and limited volume, of investment have also been stressed, as have the adverse consequences of fiscal weaknesses and the over-expansion of the economic role of the state.
3. Economic explanations only take us so far, however, for they leave unanswered the question why anti-developmental policies were adopted and allowed to remain in place for so long. To answer this we

looked at *political factors*. Political instability is one source of difficulty but we pay particular attention to "patrimonial" models of African politics. Such models seem able to predict quite a number of the policy weaknesses previously described, which increases their persuasiveness, although we point out the dangers of over-generalising about Africa's varied political reality. In any case, the patrimonial model still leaves us with the question, why Africa and not other regions?

4. This search thus led into the *historical and social* particularities of the continent, concluding that a conjuncture of demographic, social, and historical influences unique to SSA resulted in a situation ready-made for the spread of clientelist-based political systems. The fragility of post-Independence nation-states reinforced the incentive to use patronage and a centralised authoritarianism. These factors combined with the experiences of late colonialism and various intellectual influences to result in many of the policy choices which hindsight shows to have been anti-developmental.
5. We finally drew attention to other comparative disadvantages with which SSA entered the 1960s, in terms of the stock of human and inanimate capital, technological capacities, and institutional development which together define the region's *social capabilities* for rapid economic development. And we stressed the problems created by the smallness of the domestic market and the economic inflexibility which characterises most SSA economies.[1]

[1]Killick, "Explaining Africa's Post-Independence Development Experiences."

I.C.4. Lessons for Sub-Saharan Africa*

For the developing world as a whole, the past 25 years have seen unprecedented progress:

- Per capita income in low-income countries has nearly doubled over the last generation—growing faster than the United Kingdom during the Industrial Revolution, faster than the United States in its period of rapid growth as it came to economic maturity, and faster than Japan during its prewar growth spurt;
- Life expectancy has increased by ten years—twice the gain the United States could achieve by eliminating both cancer and heart disease; and
- Infant mortality rates have been nearly halved, child death rates have plummeted, and immunization rates have skyrocketed.

But this impressive overall performance conceals an extremely uneven pattern of progress. While some countries in East Asia have seen their incomes double and then double again, 36 nations are poorer today than they were a generation ago—19 of them in Sub-Saharan Africa. One in every two Africans lives in a nation that has lost ground over the last 25 years, compared with only one in 20 Asians or one in four Latin Americans, meaning social development has stagnated or even suffered reversals. In many African countries today, children are more likely to have their development stunted by lower birth weight, higher malnutrition, and poorer access to primary education than their siblings born in the late 1970s and early 1980s.

Why, in the face of so much progress, have 36 countries with a combined population of over half a billion people actually regressed? The World Bank's *1991 World Development Report* provides two explanations:

- First, national development failures are the fault of national policies—they cannot be blamed on a hostile international environment, or physical limits to growth; and
- Second, national policies have failed when governments thwarted progress, supplanting markets rather than supporting them.

Why Has Development Failed?

In searching for an answer to this difficult question, several reasons are often cited that seem to absolve national governments of responsibility. Perhaps the least plausible is a lack of foreign aid. Just look across continents—Africa received 8 percent of its income in foreign aid in 1989, much higher than the 1.7 percent for South Asia, 0.7 percent for East Asia, and 0.4 percent for Latin America. Eastern Europe dreams of, but does not expect to receive, 2 percent of its income in foreign assistance. True,

*From Lawrence H. Summers, "The Challenges of Development," *Finance & Development* (March 1992), pp. 6–8. Reprinted by permission.

Africa is poor so its aid share in income looks big. But Africa received four times as much assistance per person as Asia in 1989, and Africa's share of world aid has risen even as it has fallen further behind.

What about terms of trade? Terms of trade have turned against some commodity exporters in recent years, and many are on the list of countries that have regressed. But this can hardly explain why some countries succeeded while others failed. A comparison is telling. In 1965, Thailand was poorer than Ghana, Uganda, and Niger, and even as late as 1970, was more dependent on commodity exports than Kenya or Côte d'Ivoire. Yet today, Thailand is emerging as a newly industrialized economy, with manufactures accounting for more than half of exports.

Despite all the complaints about declining terms of trade, African countries have not fared well in maintaining their share of the market. From 1970 to 1986, Ghana's share of cocoa exports slipped from 29 percent to 8 percent, Uganda's share of coffee exports fell by almost 50 percent, and Sudan's share of cotton exports dropped by more than half. If Africa had simply managed to maintain its share, it would have enjoyed an additional $10 billion in export revenues—a figure approaching its total foreign aid receipts.

What about debt? Africa's debt burden is crushing, and there is no realistic prospect of the debts being repaid. But those burdens are a consequence, not a cause, of the miserable return that has been earned on the investments that debt financed. In 1980, the ratio of debt to GNP was 49 percent in South Korea and 28 percent in Indonesia, compared to 9 percent in Nigeria, 29 percent in Ghana, 33 percent in Zaïre and 50 percent in Tanzania and Kenya. Debt did not stop these two Asian countries from prospering, and it need not have stopped any African nation. Of course, what is past is past, and as shall be indicated later on, there is a compelling case for debt reduction when and if countries undertake serious reforms in their policy environment.

Finally, what about inherent absolute physical limitations on nations' ability to provide for growth? In some cases of regress, Argentina for example, this clearly does not apply. Nor is it very persuasive in Africa. Agricultural yields per hectare have more than doubled over the last 30 years in the developing world, but they have risen by less than 30 percent in Africa. There is no question that with proper incentives for farmers and adequate infrastructures, Africa could greatly expand its food output.

Policies That Work

Where then can we turn for guidance? Certainly, there is one simple but often neglected lesson: War stops development. Almost all of the 36 countries that have lost ground over the last 25 years have been involved in a substantial military conflict. The Middle East is often thought of as the world's tinderbox; yet relative to population, Africans have three times as high a war fatality rate. In the last 30 years, wars have claimed nearly seven million victims, either directly or indirectly, by making the provision of food and basic social services difficult or impossible. Today, post-Cold War, the threat of "hot" war in Africa persists. Sub-Saharan African governments spend four times as much on the military as on health, and equal amounts on the military and education. By contrast, in East Asia, spending on both health and education far exceeds military outlays.

But what else does the development record have to offer? A review of the successes and failures suggests four key lessons about government policies. In essence: governments that fail do too much and do it badly; successful governments do less and do it better.

Sound macroeconomic policies with sustainable fiscal deficits and realistic exchange rates are a prerequisite to progress. Large government budget deficits absorb domestic saving and foreign funds that could otherwise be channeled to the private sector. They crowd out more productive investments, frequently placing the financial system under great strain. Often they induce rapid inflation, which exacerbates the deficit, creating a vicious cycle. Deficits also lead to overvalued exchange rates, thereby stifling exports, damaging domestic producers, and creating pressures for protectionism. Look at Zaïre and Thailand in the late 1980s. Thailand enjoyed stable rapid growth with low deficits, while Zaïre suffered large deficits and bore the consequences in terms of lost export competitiveness, reduced private investment, and slow growth.

If persistent government budget deficits are the surest route to economic failure, an artificially overvalued exchange rate must be the runner up. Overvaluation leads to the rationing of foreign exchange, which historically means that those in government and their friends skim off large rents. It creates pressure for layer after layer of controls on imports, capital flows, and even travel. It also destroys emerging export industries, perhaps the most important foundation for growth.

There is an easy and reliable way to identify unrealistic exchange rate policies: compare the official rate with the parallel market rate. Studies demonstrate that when the spread is wide, growth slows, returns on investment decline, and the prospect of financial crisis and capital flight increases. That a strong currency makes for a strong economy is a particularly damaging myth. The Asian success stories were all built around the export growth created by low, realistic, real exchange rates. In 1970, Indonesia's manufactured exports were less than Nigeria's and are now 36 times as large, and Malaysia's were three and a half times Kenya's and are now 52 times bigger.

A permissive rather than a prohibitive policy environment is essential for the private sector. The great debate over economic systems is now over. Almost no one disagrees that communism is the longest way from capitalism to capitalism. For all their faults, competitive markets are the best way man has yet found to get goods and services produced efficiently.

What does creating a permissive environment for the private sector entail? One thing it means is avoiding government monopolies or punitive regulations. The tremendous success of the Nigerians in abolishing agricultural marketing boards and moving toward a realistic exchange rate is clear. Output of a number of key export crops, including cocoa, has increased by more than 50 percent since low points reached in the mid-1980s. Indeed, the production of both rubber and cotton has quadrupled since 1986; soybean production and processing have risen even more.

A permissive environment also means allowing market forces to determine prices without price controls or large subsidies. Fertilizer policies in many African countries exemplify what is wrong with price controls—the resulting rationing implies that some well-connected farmers secure large amounts of fertilizer at low cost, while those less well-connected find fertilizer less available and more expensive.

Finally, a permissive environment is one where government seeks to reduce rather than increase the cost of doing business. That means lowering tariffs and quotas on crucial intermediate and capital goods. According to a recent study, investment costs are 50 percent higher in Africa than in South Asia, and this is just the cost of capital goods, with no account taken of the additional costs caused by the inefficient provision of infrastructure. The need for business to maintain their own capacity for generating electricity is an example.

Government has no business attempting to directly manage the production of private goods and services. Around the world, the record of public enterprise management is one of disaster. While it may be true in theory that a properly managed public enterprise can be as productive and efficient as a private one, the reality is that politics, usually of a virulent nature, intrudes, and efficiency is sacrificed. Public enterprise managers are rarely permitted to shed labor to produce at minimum cost. Moreover, procurement is often treated as a way of enriching contractors and procurement officers.

Nigeria appears to provide almost a textbook example of what can go wrong when the government gets directly into the business of producing goods and services. Between 1973 and 1990, the Nigerian public sector invested $115 billion, just about $1,000 for every citizen. Yet there is no growth to show for this investment. Why? Most of the investment was greatly overpriced for "non-commercial" reasons. In addition, most public sector assets are operating at capacity utilization of less than 40 percent. This is not to mention the $3 billion Ajaokuta Steel complex, which, after another $1 billion to complete, will then lose money even on a sunk cost basis.

It does not have to be this way. Look at the difference between oil refineries run by private firms and those that are public. Look at the difference between hotels maintained privately and publicly. Relying on the private sector to undertake major investments, Nigeria could have achieved the same output with up to $80 billion less investment over the last 18 years since the oil boom.

No country has ever developed without adequate provision of basic investment in infrastructure and in people. Governments that spread themselves too thin inevitably find themselves neglecting the tasks that only they can perform. Experience suggests that governments that stay out of the production business, as did many in East Asia, provide more effectively for schooling and health care and create better infrastructure foundations for private business.

Small amounts of public investment in key sectors, such as agriculture, can make a huge difference. For example, small-scale relatively cheap irrigation schemes and the basic tasks of agricultural research and extension are neglected, while large outlays are allocated for fertilizer subsidies in many countries. Similarly, a classic pattern is overinvestment in new physical facilities and underinvestment in repair and maintenance.

Human investments are especially important. The two greatest threats to Africa's future are the investments that are being neglected in primary education and in food security. A child born in Mali, Niger, or Burkina Faso today is more likely to be malnourished while under five than to go to primary school on reaching six, and in at least 16 African countries, a child is more likely to die before the age of five than to attend secondary school. Ironically, the public sector workforce is often neglected even as employment expands. Teachers' real wages fell by two thirds over the last 15 years in Nigeria and by 13 percent in eastern and southern Africa from 1980 to 1985. It is hardly surprising that education deteriorates. In nations where the quality of education and health care is rising, the salaries of teachers and nurses are increasing as well. . . .

Can the next two decades be better than the last two? If African nations learn from worldwide experience and put into action the abovementioned principles, there is no reason why living standards in Africa cannot double over the next generation. But there is one lesson to keep in mind: Takeoff takes longer than one expects but then happens faster than one expects.